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DEPARTMENT FOR AF/E AND INR  
LONDON AND PARIS FOR AFRICA WATCHERS

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SUBJECT: ERITREA'S DYSFUNCTIONAL CONSTRUCTION INDUSTRY

Classified By: AMBASSADOR RONALD K.MCMULLEN FOR REASON 1.4 (d)

¶1. (SBU) Summary: The "temporary" measures which constricted the activities of Eritrea's private construction and contracting companies in 2006 continue, and have effectively squeezed the private sector out of business, according to a member of the European Commission (EC). Eritrean construction companies currently permitted to operate are solely owned either by the Eritrean Defense Forces (EDF) or by the regime's political party, the People's Front for Democracy and Justice (PFDJ), although several Chinese and Korean-owned companies have been given licenses to operate as well. Notwithstanding the government/party-controlled construction companies, the construction industry in Eritrea is barely functioning, suffering from a lack of materials and subject to the complete dominance by the ruling party's parastatal, the Hidri Trust. All construction companies operating in Eritrea, including the Chinese and Korean-owned firms, are listed in paragraph 9. End Summary.

PRIVATE CONSTRUCTION LICENSES CANCELLED

¶2. SBU) The EC's Program Officer for Infrastructure and Post-Conflict Rehabilitation recently outlined to Emboffs the difficulties the EC has faced since 2006 in trying to implement EC-funded construction projects. In late March 2006, the Government of the State of Eritrea (GSE) withdrew business licenses from all private contractors and consulting engineers in Eritrea, allegedly in response to the death of a worker at a construction site. The GSE officially took this action at the time as a necessary "temporary" step to weed out bad business practices in the country. Since then, no new licenses for construction companies have been issued. Consequently, the only licensed and currently operating Eritrean construction companies are owned by either the ruling People's Front for Democracy and Justice (PFDJ) or the Eritrean Defence Forces (EDF).

PRIVATE SECTOR CONSTRUCTION ABSORBED

¶3. (C) The private construction companies closed in 2006 were absorbed by the PFDJ-and EDF-owned companies in a State-directed hostile takeover. (Note: One Eritrean-American businessman told Emboff that in 2006, professionals working

for private construction companies were instructed by the PFDJ to attend a mandatory meeting of the party. At the meeting, the business owners, engineers, and architects were summarily arrested. Many of these construction professionals were detained for months in prison without charge. End Note.) With no prospects for resuming business activity, private companies have been selling their assets over the past two years to the government-affiliated companies at fire-sale prices, which also includes the hiring of their skilled workers. The EC officer noted that the few remaining licensed private companies lack the capacity to perform at pre-2006 levels when local competition included the private sector firms.

#### RESTRICTIONS ON PROCUREMENT

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¶4. (SBU) In September 2005, the GSE issued Procurement Proclamation 147/2005 to regulate construction activities. The proclamation specified for private companies their allowable profit margins, overhead charges, fees, taxes, and use of construction materials. Although not specifically stated in the proclamation, the GSE's application of the new regulations resulted in private businesses, government ministries, and agencies having to procure all goods, including material for civil works, through the Red Sea Trading Corporation (RSTC). The RSTC, like the remaining construction companies, is owned by the Hidri Trust. This leaves Eritrea's entire construction industry vertically integrated and under the control of the PFDJ.

¶5. (SBU) The extreme difficulties in importing construction materials has become another fact of life in Eritrea over the last two years. The GSE requires contractors to be paid in internationally worthless Nakfa, although hard currency is needed to import materials. Projects are often delayed while contractors wait for a hard currency allocation from the perennially cash-strapped GSE. Representatives from international organizations also noted Eritrea's party-dominated economic model can barely absorb even the present low level of infrastructure spending, and some international donor projects are put on hold or even cancelled as a result.

#### SOUTH KOREAN CONSTRUCTION COMPANIES IN ERITREA

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¶6. (SBU) Two South Korean owned construction companies (see paragraph 9) have operated in Eritrea for approximately ten years. They originally built the Sembel Hospital and Sembel Apartment Complex near the Asmara Airport, and since have worked on small-scale residential projects in Massawa. Post's EC contacts note these companies do not have the capacity to engage in large-scale projects such as dams or roads in Eritrea. A separate analysis of Chinese construction company activity will be provided septel.

#### NATIONAL SERVICE LABOR USED FOR CONSTRUCTION PROJECTS

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¶7. (SBU) In 2002, the Warsay-Yekalo National Development Campaign was launched under the oversight of the Ministry of Defense in order to facilitate the enrollment of civilians into National Service and to engage the armed forces in the development of the country. EDF- and PFDJ-owned companies regularly draw from the labor force organized under the Warsay-Yekalo campaign. As a result, these companies benefit from laborers receiving a stipend of between 300 and 500 Nakfa per month (\$20 - \$33), versus the GSE's officially published minimum salary of 1000 Nakfa per month (\$67).

¶8. (C) Comment: The GSE continues to claim its Marxist economic policies are temporary measures in the face of national security emergency conditions. These policies are largely responsible for the current deplorable economic situation across sectors. After seven years of tightening economic "emergency measures," these economic policies have become entrenched, and appear well on their way to becoming permanent. End Comment.

19. (SBU) CONTRACTING COMPANIES OPERATING IN ERITREA

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PFDJ/Hidri Trust Fund Owned Companies

--Segen  
--Rodab  
--Bdho  
--As.Be.Co.

Eritrean Defense Force-Owned Companies

--Debwin  
--Winna  
--Sawa  
--Hangar  
--Mussa-Ali  
--Mereb  
--Badme  
--DegefZula

Chinese Owned Companies

--China New Era  
--China Tianjin  
--China Jiangsu  
--China Sichuan  
--China National  
--China State Jiangxi  
--China Henan  
--China State

South Korean Owned Companies

--Horn  
--Keangnam  
MCMULLEN